

EXHIBIT A



DEPARTMENT OF HEALTH & HUMAN SERVICES
Administration for Children and Families, Region III

Suite 864
150 S. Independence Mall West
Philadelphia, PA 19106-3499

October 28, 2005

Mr. Frank Ogundare, President
Board of Directors
Southern Delaware Center for Children and Families
18907 Unit 4 Maranatha Way
Bridgeville, Delaware 19933

Dear Mr. Ogundare:

This is official notification via facsimile transmission and Federal Express that under the authority of 45 C.F.R. § 1303.13, the Administration for Children and Families (ACF) is summarily suspending all Federal financial assistance under the Head Start Act to the Southern Delaware Center for Children and Families (Southern Delaware or Grantee) Head Start program. As set forth in detail below, we are taking this action based on information obtained on a telephone conference call held on October 3, 2005, information provided to ACF by email on October 4, 2005 and ACF's financial review of the grantee's operating accounts and financial resources during an onsite visit on October 26 to 27, 2005 at the grantee's administrative office in Bridgeville, Delaware. The action is also based on Southern Delaware's failure to abide by the terms and conditions of its financial assistance award.

This summary suspension will take effect on November 3, 2005 at 5:00 PM, and will continue indefinitely. During the period of suspension, a grantee may not incur any valid obligations against Federal Head Start grant funds, nor may any grantee expenditure or provision of in-kind services or items of value made during the period be counted as applying toward any required matching contribution required of a grantee, except as otherwise provided in 45 C.F.R. Part 1303. See 45 C.F.R. § 1303.13(d).

Basis for the Summary Suspension

Our decision to suspend Federal financial assistance to Southern Delaware is based on the following violations of regulatory requirements which demonstrate that Southern Delaware: (1) has failed to abide by the terms and conditions of its financial assistance award and other applicable regulations and, (2) has failed to comply with the required fiscal reporting requirements applicable to grantees in the Head Start program.

On September 22, 2005, during a telephone conversation with ACF Regional Office Staff, the Head Start Director was asked if the agency had enough funds to meet Head Start obligations for the remainder of the year. In response, the grantee's Head Start Director reported that Southern Delaware might not be able to meet its Head Start

payroll beyond mid-October. ACF probed this issue to obtain revised programmatic and budget information. On September 23, 2005, in response to continuing requests from ACF Regional Office staff for budget amounts and program information, the grantee provided a revised budget indicating total projected expenses to the end of the fiscal year of \$654,861. On September 23, 2005 the ACF Regional Office's review of the grantee's funds available in the Payment Management System (PMS) found that the grantee had a balance of \$73,674. The ACF Regional Office's analysis indicated that with \$73,674 available in PMS and projected budget expenses of \$654,861, the grantee would be left with a shortfall of \$581,187.

The grantee subsequently revised its September 23, 2005 budget and operating costs on September 27, 2005. This budget iteration indicates that the grantee would need \$313,608 to continue services through December 31, 2005. ACF Regional Office's review of the grantee's funds available in PMS found that the grantee had a balance of \$63,674, leaving the grantee with a new potential deficit of \$249,394.

On October 3, 2005, ACF Regional Office Staff posed five questions to the grantee, and demanded a response by close of business on that date. The questions and grantee's answers are as follows:

1. If Southern Delaware Center for Children and Families does not receive additional funding, when would be the last day of services?

"The last day of services would be November 4, 2005."

2. The PMS account had \$63,000 on record. Have there been drawdowns since 9/29?

"No, there have been no drawdowns since 9/29."

3. Of the \$87,000 on hand, how much is obligated?

"\$11,687 is obligated to bills".

4. Sources of external funding: List amounts & Sources.

"The Board has and will continue to seek funding and other funding sources. As the amounts become available you will be provided with the names and amounts."

5. How is Southern Delaware able to meet Head Start performance standards with reduced staffing and reduced operating costs?

"Each site has a Center Manager/Teacher. Each classroom meets the child staff ratio. All Health/Mental Health standards are in place. All Health & Safety standards are being met".

As indicated above and on an attached document sent at the same time, the grantee indicated that it had cash on-hand in the amount of approximately \$87,865, of which \$11,687 was already obligated.

The grantee has monthly expenses of approximately \$104,536 and is required to provide services through December 31, 2005 per the terms and conditions of the grant. Based on the grantee's revised budget the grantee needs \$313,608 to continue services from September 27, 2005 through the end of the fiscal year. Based on a review of the grantee's PMS balance and unobligated cash on hand, the grantee had funds in the amount of \$139,852. This left a shortfall of approximately \$173,756. On October 6, 2005, the Secretary of the Board indicated that he was unaware of any fund-raising activities to solve this crisis.

Pursuant to 45 C.F.R. § 1303.13(b), a suspension may be imposed for the same reasons that justify termination of financial assistance. Under 45 C.F.R. § 1303.14(b)(9), termination of financial assistance is proper when the grantee has failed to abide by the terms and conditions of its grant award or any other applicable regulations. The specific areas in which the grantee is in violation of the regulations and the Standard Terms and Conditions of its grant award are follows:

Pursuant to the Standard Terms and Conditions:

"5. The recipient organization must carry out the project according to the application as approved by the Administration for Children and Families (ACF), including the proposed work program and any amendments, all of which are incorporated by reference in these terms and conditions."

The grantee's current budget period began on January 1, 2005 and ends on December 31, 2005. As of October 3, 2005, the grantee had \$63,674 remaining in Head Start grant funds in its account with HHS' Payment Management System (PMS). The grantee's Wilmington Trust bank statement on October 3, 2005, showed a current balance of \$87,865. The grantee said that \$11,687 of this was already obligated. Consequently, it appears that grantee had only \$139,852 remaining of the \$1,332,101 it received for the current budget period on October 3, 2005. In an e-mail response to questions raised by ACF in a telephone conversation on October 3, 2005 with the grantee's Executive Director, the grantee indicated that these funds would allow it to continue Head Start Services through November 4, 2005. In that same e-mail message, the grantee indicated that the Board of Directors was attempting to obtain additional funds to allow it to continue Head Start services until December 31, 2005. Barring a sudden infusion of funds, the grantee will not be able to carry out its proposed work program through December 31, 2005.

An onsite review of the grantee's operating and financial resources by Federal Staff was conducted in the administrative office located in Bridgeville, Delaware on October 26 and October 27, 2005. This review revealed that the grantee had expended nearly all of its Federal funding. The review of the grantee's operational accounting for the budget period showed that the grantee had just \$63,674 in the PMS account and only \$5,560.37 of additional funding on the operating accounts for the balance of the budget period.

Pursuant to 45 C.F.R. § 1304.51(h) (2), grantees must establish and maintain efficient and effective reporting systems that generate official reports as required by applicable law. Furthermore, the Standard Terms and Conditions applicable to Head Start programs state:

"10. Failure to submit reports (i.e., financial, progress, or other required reports) on time may be the basis for withholding financial assistance payments, suspension, termination or denial of refunding. A history of such unsatisfactory performance may result in designation of "high risk" status for the recipient organization and may jeopardize potential future funding from DHHS."

Additionally, 45 C.F.R. § 74.52(a)(1)(iv) provides that grant recipients shall submit the SF-269 no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports and 90 days for annual reports.

The grantee has a history of failing to submit its Financial Status Report (SF-269) on time. ACF was finally able to obtain SF-269 that was due July 30, 2005, for the period January 1, 2005 to June 30, 2005 on October 26, 2005. The final SF-269 for the budget period that ended December 31, 2004 was due on January 30, 2005; however, it was not received until April 4, 2005. This is a violation of the regulations at 45 C.F.R. § 74.52(a)(1)(iv).

In accordance with 45 C.F.R. § 74.21(b)(3), the grantee's financial management system must provide for the effective control over and accountability for all funds and other assets. As discussed in detail above, the grantee has substantially overspent funds, and by its own admission will be unable to operate the Head Start program after November 4, 2005. The fact that the grantee has overspent funds and will be unable to continue the Head Start program after November 4, 2005 is evidence that the grantee's financial system did not provide for the effective control and accountability for all funds. This is a violation of the regulations at 45 C.F.R. § 74.21(b)(3).

As discussed above, under 45 C.F.R. § 1303.13(b), a suspension may be imposed for the same reasons that justify termination of financial assistance. Under 45 C.F.R. § 1303.14(b)(3), termination of financial assistance is proper when the grantee has failed to comply with required fiscal reporting requirements applicable to Head Start grantees. This is a violation of the reporting requirements found at 45 C.F.R. § 74.52(a)(1)(iv) and grounds for suspension.

Appeal Rights

If Southern Delaware wishes to appeal this suspension, such appeal must be made to the Departmental Appeals Board. The appeal must be made within five (5) days of receipt of this notice of suspension. Such an appeal must be made in writing and must fully set forth the grounds for the appeal and be accompanied by all documentation that Southern Delaware believes is relevant and supportive of its position.

The grantee's appeal must be sent to:

Department of Health and Human Services
Departmental Appeals Board, MS 6127
Appellate Division
330 Independence Ave., S.W.
Cohen Building - Room G-644
Washington, D.C. 20201

A copy of the appeal must also be sent to each of the following addresses:

Joan H. Ohi, Commissioner
Administration on Children, Youth, and Families
P.O. Box 1182
Washington, D.C. 20201

and

David J. Lett, Regional Administrator
Administration for Children and Families
150 S. Independence Mall West, Suite 864
Philadelphia, PA 19106

Please be advised that if a termination action is instituted while summary suspension is in effect, the suspension shall merge into the termination and the suspension will continue until there is an administrative decision by the Departmental Appeals Board on the grantee's appeal.

As a result of ACF's summary suspension of financial assistance to Southern Delaware, and because the grantee has indicated that it has insufficient funds to continue the program beyond November 4, 2005, ACF has appointed an interim grantee to operate the Head Start program. ACF is authorized by Federal law to appoint an interim grantee to operate the program until either the grantee's suspension is lifted or a new

grantee is selected in accordance with subparts B and C of 45 C.F.R. part 1302. This is to ensure that services continue to children and families in the community. See 45 C.F.R. § 1303.13(e). ACF is committed to ensuring that the Head Start program remains in the community and expects Southern Delaware's full cooperation and assistance in ensuring a smooth transition with the interim grantee, Community Development Institute.

Cordially,



David J. Lett
Regional Administrator